CGR CREDIT UNION

FAX

To: Gerald Poliquin,
Secretary to the Board
National Credit Union Administration

From:	**Robert "Jerry" Jordan, CGR Credit Union**	Date:	**5/27/2014**
Re:	**Risk Based Capital (RIN 3133-AD77)**	Pages:	**4 including cover**

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CREDIT UNION

May 27, 2014

Gerald Poliquin, Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Proposed Rule – Prompt Corrective Action – Risk-Based Capital (RIN 3133-AD77)

Dear Mr. Poliquin:

Please accept this comment letter on behalf of CGR Credit Union, Macon, GA. CGR Credit Union has $75,000,000 in assets and serves over 14,000 members in Central and South Georgia and primarily the hospital employees and their families in Bibb, Houston, Baldwin, Peach, Tift, and Cook counties. We were chartered by employees of the Medical Center of Central Georgia in 1971 to serve hospital employees. We very much appreciate the opportunity to comment on the above referenced notice of proposed rule-making (NPR).

The majority of our members are lower-tier borrowers and savers with our average balances, in both loan and deposits, being less than half on average of our peer group. Over half of our 14,000 plus members use us as their primary financial institution. Many do not qualify for financial services of any kind from commercial banks or even other credit unions in our area. We serve as more than just another bank. Our current level of capital and earnings has us positioned to continue to grow the Credit Union to better serve our members. We are rated as "Well-capitalized" under the current rules and as calculated under the proposed new rule. However we believe that the new rule creates concerns for all credit unions and especially for those that see growth as a competitive and service imperative.

There is some concern with regard to equating asset size to the complexity of the balance sheet. While CGR Credit Union is likely among the most conservative of credit unions at our asset size with nothing but consumer loans and investments back by the U.S. Government, there may be periods in the future that more complexity is added. The point being that the new rule's definition of "complex" could apply to a $30 million in asset size or a $100 million plus size and even larger. We would ask that NCUA apply capital rules that are more specific to those components of a credit union's balance sheet that are identified as being higher risk and not use asset size as the measure.

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We believe that a risk-based capital formula for credit unions (all insured financial institutions) is necessary but we also feel that the proposed rule is too broad and that it does not appear to be consistent with rules applied to FDIC insured banks. Unlike banks, credit unions can only raise capital through retained earnings, and your proposal will clearly require credit unions to reduce their return to members through lower dividend rates on deposits and higher rates on loans. Fees for services will also be forced to align much more closely to those charged by banks in an effort to generate higher retained earnings. Absent from the new rule are alternative capital solutions that would be required to offset the need to raise prices or reduce savings rates to our members. The proposed rule has the potential to impact the credit union industry's recovery in what is now the most competitive market place in the history of financial services in this country.

Also of concern is the idea that NCUA be "more consistent with the risk-based capital rules currently applied to corporate credit unions". It is difficult to understand this logic as natural-person credit unions are so different from corporates. The measures taken to mitigate the risk to the share insurance fund for retail credit unions is similar in account structure but in no way relevant in the manner and purpose served.

We also have to question the risk-weights proposed for concentrations of specific types of real-estate secured loans. The differentiation of risk assigned to all other lien positions" is troubling in that it focuses on a higher interest rate risk with less consideration for collateral value and credit risk. It could be that we do not fully understand the intention of this part of the rule as we see our HELOCs as being better all-around for our portfolio and for serving our members. Even our fixed equity loans present a good return at a competitive price and have excellent loss history.

A real estate loan here at CGR Credit Union is a consumer loan and the risk-weighting assigned to second-lien real property loans does not appear to be consistent with the logic you apply to other consumer loans. HELOCs present no interest rate risk and our historical losses are minimal on fixed or variable rate seconds. This proposed rule may even discourage or limit our making these loans and being able to meet our members' borrowing needs and expectations.

As this proposed rule stands now the risk-weights assigned to investments do not appear to be consistent with what is current required for banks under Basel III (as we understand it). We currently have minimal amounts of longer-term investments, none at risk of loss of the principal and only few that have much rate risk at all but the limitations proposed could make it increasingly more challenging to manage the income on liquidity in the future.

The proposed rule also assigns a risk-weighting of 200bps to PIC at Corporate Credit Unions. With all the measures NCUA has taken to reduce or prevent losses as we have seen in the past at corporate credit unions this heavy risk weighting does not appear to be needed.

We have serious concerns with the proposed rule as it is written to allow individual examiners in the field to impose higher capital requirements on a case-by-case basis without giving any specific criteria for such action to be taken. Being on the scene and seeing beyond just the numbers has to factor in the equation but as individual examiners are people too, interpretations of rules are challenging enough but the absence of rules can make it too personal for any examiner. We believe this part of the NPR should be deleted entirely.
The proposed 12-18 month period for credit unions to adjust balance sheet strategies before implementation of the final rule appears to be very short. Increasing capital without limiting or reducing growth takes time especially in times like we are in now with such minimal margins. Again, in the absence of alternative capital, retained earnings is our only capital source. It is also our understanding that banks were given several years to implement similar changes to their capital requirements.

In general, we believe the proposed rule will add to the pressure of small credit unions merging into the larger ones. The term "small" has so much more to do with size and scope of operations, services offered or not, and operating efficiencies (ie, sponsor support), that any increase to fund equity even in an acceptable amount of time my diminish the already small margins we have.

We further believe that there is much work to be done in the way of amending this new rule before it is implemented. We understand the NCUSIF must remain strong now and into our future for us all to succeed and we value the Agency's closer look and study that will result in a better overall solution.

We very much appreciate the opportunity to comment on this proposed rule and we thank you in advance for your consideration of our views on the subject.

Sincerely,

Robert J. Jordan
President/CEO
CGR Credit Union
Macon, Georgia